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ABSTRACT

This booklet attempts to provide the layman with information on the need to equalize educational opportunities and taxpayer burdens in a high quality State system of public schools for Texas. The publication attempts to stimulate discussion and provide a foundation, in the briefest form, for the consideration of Texas school finance issues. Essentially, the booklet is a review of the Rodriguez vs San Antonio Independent School District court case, which hit on the constitutionality of the Texas school finance system; the Minimum Foundation Program (MFP) established in Texas in 1949 to guarantee a minimum level of support for the operation of local public schools; previous Texas school finance study recommendations; and the National Educational Finance Project. Two appendixes consider Texas school finance studies in progress and school finance policy questions. (Author/DN)

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# ISSUES IN

# SCHOOL

## FINANCE / A TEXAS PRIMER

by RICHARD L. HOOKER

A Review of

- the Rodriguez decision
- the recommendations of prior study groups
- the Texas Foundation School Program
- the finance studies in progress
- the National Educational Finance Project Findings

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TEXAS ASSOCIATION OF SCHOOL BOARDS / AUSTIN, TEXAS

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# ISSUES IN SCHOOL FINANCE

A Texas Primer by  
Richard L. Hooker

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Austin, Texas

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## FOREWORD

The following pages reflect an attempt on the part of the Texas Association of School Boards to provide the layman with the information necessary to begin thoughtful consideration of the Texas need to equalize educational opportunities and taxpayer burdens in a high quality state system of public schools. The objectives in the development of this publication were two-fold: (1) to stimulate discussion and (2) to provide a foundation, in the briefest possible form, for the consideration of Texas school finance issues.

As school finance studies progress, the Association will augment this handbook with reports in the **Texas School Board Journal** and **Newsletter**. In addition, TASB committees and staff members will develop special reports on school finance and will provide policy input by the school boards of Texas.

In my opinion, Dr. Richard L. Hooker, associate director of TASB, has done a creditable job of accomplishing the objectives set forth for this publication. When he came to TASB in 1968, Bascom Hayes of The University of Texas at Austin and Kenneth Welsch of Columbia-Brazoria ISD had trained him well in the area of school finance; and since his arrival here, he has built upon that foundation by studying and reporting upon the Governor's Committee proposals of the Sixty-first Legislature and the Committee of Eighteen efforts prior to and during the Sixty-second Legislature. His counsel on school finance is sought by legislators, candidates for state office, and tax policy leaders in business as well as school board members and school administrators.

Finding equitable solutions to the provision of quality public education will require the best collective efforts of school board members, legislators, professional educators, and interested laymen. It is hoped that this publication will provide laymen with a point of departure for considering the issues in Texas school finance.

Cecil E. Rusk  
Executive Director

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**Review of Rodriguez  
v.  
San Antonio ISD**

## Review of Preceding Litigation

The draft of the December 23 ruling by the three-judge federal panel was not drawn in a vacuum. Several prior decisions influenced Judges Goldberg, Spears, and Roberts as they considered the facts and pleadings. It should also be noted that the success of the plaintiffs can largely be attributed to the design of legal arguments developed by Coons, Clune, Sugarman, and others and set forth in "Educational Opportunity: A Workable Constitutional Test for State Finance Structures" (1969) 57 California Law Review.

The above named legal scholars and others observed that within most of the states wide disparities exist in the quality of educational opportunity afforded the public school student from one community to the next. They reasoned that since public education is a state function each student should have an equal opportunity to receive a similar quality education regardless of the location of his domicile. In investigating the problem, researchers found that nearly all states rely heavily on a local ad valorem tax to support the schools. A strong correlation was also found between the ad valorem tax wealth of school districts and per pupil expenditures—the larger the ad valorem tax base per pupil, the larger the per pupil expenditure and conversely the lower the ad valorem tax base per pupil, the lower the per pupil expenditure. A state system of school finance which was so constructed was thought to be in violation of the Fourteenth Amendment to the Constitution.

Initial efforts to overturn such state systems of school finance were unsuccessful. *McInnis v. Shapiro*, an Illinois case, and *Burruss v. Wilkerson*, a Virginia case, were both decided for the defendants and with the same basic reasoning on the part of the respective courts. Each suit challenged its state financing system and asked that "pupils' educational needs" be the basis for educational expenditures. The courts concluded that such a basis for expenditures provided no manageable standard and therefore rendered the controversy nonjusticiable: "... the courts have neither the knowledge nor the means, nor the power to tailor the public monies to fit the varying needs of these students." The U. S. Supreme Court's jurisdiction in *McInnis* was not discretionary because of its source, a three-judge federal court; however, the Supreme Court affirmed the lower court decision with no cases cited and no oral arguments.

## Serrano v. Priest

The California Supreme Court decision in *Serrano v. Priest* was the beginning of a slightly different approach to the preparation of pleadings and a different type of decision resulted. An exhaustive collection of facts and the elimination of a pleading for the distribution of funds on a basis of "pupils' educational needs" resulted in a judgment in favor of the plaintiffs.

The plaintiffs, a group of students and taxpayers, alleged that

- 1) the California school finance program relies heavily on local property taxes resulting in substantial disparities in the quality of educational opportunities among the school districts and
- 2.) the finance scheme requires the taxpayers of some school districts to pay a higher tax rate to obtain the same or lesser quality education for the students of their districts.

The allegations were dismissed by a lower court on the basis of the defendants' demurrers, an admission that all material facts are properly pleaded but an assertion that claims are not a sufficient cause of action because of unfounded contentions, deductions, etc. On appeal, however, the California Supreme Court devoted sixty-three pages to informing the lower court that it was in error and in conclusion returned the case to the lower court.

In reviewing the facts the court found that the California system of school finance relied heavily on the local property tax. The property tax base ranged from a low of \$103 per unit of average daily attendance to a high of \$952,156. In spite of a relatively high guaranteed state foundation program of \$355 per elementary pupil and \$488 per secondary pupil, the per pupil expenditure range in Los Angeles County was from \$577.49 to \$1,231.72; and the district that was spending less than half as much had its citizens making by far the greatest tax effort. The court concluded from these facts that state grants were inadequate to offset inequalities "inherent in a financing system based on widely varying local tax bases"—an expend more effort, spend considerably less dollars system for the poorer school districts.

It is outside the scope of this handbook to delve in depth regarding legal abstractions; however, the reader's attention should be focused momentarily on what will probably be the primary consideration of the Supreme Court when *Rodríguez* is heard. Consideration of these cases has hinged upon the courts' acceptance of public education as a "fundamental interest." The California

Supreme Court devoted a considerable portion of its decision to the development of a foundation for designating public education a "fundamental interest." The purpose becomes clear in the light of the U. S. Supreme Court decisions which have established two distinctly different postures in dealing with issues pertaining to the equal protection clause: one for "fundamental interests" and "suspect classifications" and one for others. For general consideration the High Court has presumed the constitutionality of a state statute and has required only that the statute have a rational relationship to a legitimate state purpose; but where "suspect classifications" and "fundamental interests" are concerned, states have had to establish a "compelling" state interest, one almost absolutely necessary to further a legitimate state purpose.

Another key consideration of the U. S. Supreme Court will be whether or not spending for public education as a function of the proportions of the local ad valorem tax base renders a state school finance system to be utilizing a "suspect classification," wealth. The California Supreme Court reviewed the U. S. Supreme Court's frequent investigation of wealth as a "suspect basis for discrimination under the law." Among the citations where *Harper v. Virginia Board of Elections*: "Lines drawn on the basis of wealth or property, like those of race are traditionally disfavored."

The plaintiffs in *Serrano v. Priest* sought to prove that the California system discriminates on the basis of wealth and the assertion was found to be "irrefutable" by the court. "The foundation program partially alleviates the great disparities in local sources of revenue, but the system as a whole generates school revenue in proportion to the wealth of the individual district," the decision stated. This contention, however, has not yet been reviewed and approved by the U. S. Supreme Court; and upon this issue and that of education as a "fundamental interest" will hang the fate of the *Rodriguez* ruling and other similar decisions.

It is interesting to note that the California Supreme Court specifically stated that

- uniform educational expenditures are not required
- no specific finance system is being dictated
- whom to hire and the many other matters requiring decentralization of decision making can be left in the hands of local school boards.

The spirit of the decision can best be understood by thoughtful consideration of the following quotation:

To allot more educational dollars to children of one district than to those of another merely because of the fortuitous presence of such property is to make the quality of a child's education dependent upon the location of private commercial and industrial establishments. Surely, this is to rely on the most irrelevant of factors as the basis for educational financing.

## Background of the Suit

In its origination *Rodriguez v. San Antonio ISD* was not a brother to the offspring of the concerted effort to overturn existing state school finance statutes. In its early form in the summer of 1968, the plea centered around the consolidation of school districts in Bexar County, at least for school finance purposes; the hoped-for outcome was equalization of tax effort and educational opportunity within the county. San Antonio ISD and the wealthier school districts of this county were party defendants.

The court postponed final judgment in the case to give the Sixty-second Legislature an opportunity to enact legislation that would alter the state system of school finance in a manner which would resolve the issues in the case.

As the Sixty-second Legislature came and went with no changes being made in the state school finance system, the plaintiffs began to press for a decision from the court. As a result, the pleadings in the *Rodriguez* case were amended to conform to the strategies developed by Sugarman, et al.

San Antonio ISD and the other school districts of Bexar County were dropped as party defendants and the consolidation of Bexar County issue was not even mentioned in final oral arguments before the court.

Legal counsel who had assisted in the development of the *Serrano* case in California was brought into the case by the plaintiffs in order that everything possible might be done to achieve a decision similar to that which was rendered in California. The suit became an all-out attempt to have the Texas school finance system declared unconstitutional and an injunction invoked against the state—circumstance dictating the assembly of a three-judge tribunal whose decisions would be directly appealable to the Supreme Court.

## Overview of the Texas Decision

Judges Goldberg, Spears, and Roberts, a three-judge panel of the United States District Court, Western District of Texas, San Antonio Division, ordered that

- the defendants [the Commissioner and State Board of Education] be restrained and enjoined from giving any force to the **Operation** of Article 7, § 3, of the Texas Constitution, and the sections of the Texas Education Code relating to the financing of education insofar as they discriminate on the basis of wealth
- the defendants restructure the public school financing system in a manner that does not violate the equal protection provisions of the U. S. and Texas Constitutions.

Within the decision, the judges stayed the order for a period of two years to give the defendants and the legislature an opportunity to develop, enact, and begin the implementation of a finance system acceptable to the court. The court, however, retained jurisdiction of the case and declared its intent to "take such further steps as may be necessary to implement both the purpose and the spirit of this order" if the legislature and the defendants fail to act within the guidelines and time frame established by the court.

The facts presented to the court led the judges to conclude that the State had failed to establish even a reasonable or rational relationship between a legitimate state purpose and the present Texas system of public school finance. In a survey of 110 sample schools presented to the court, the ten wealthiest districts had more than \$100,000 of taxable property per pupil while the four poorest districts had less than \$10,000 per pupil. The wealthiest enjoyed a relatively low effective tax rate of 21¢ per \$100 of true market value while the poorest districts' taxpayers had a burden of 70¢ per \$100.

In Bexar County alone, the market value of property per student ranged from a low of \$5,429 in Edgewood to a high of \$45,095 in Alamo Heights; and taxes as a percentage of property value were the lowest in Alamo Heights and the highest in Edgewood. The greater effort of Edgewood's taxpayers, however, produced only \$21 per pupil while the lower tax effort of the Alamo Heights taxpayer yielded \$307 per pupil; and the 1967-68 total state-local combined result was \$231 per pupil in the poor district and \$543

in the wealthy district, the Alamo Heights taxpayer getting almost twice as much to spend per pupil while expending substantially less effort.

In reviewing the state system which effected the previously cited result, the court found the root of the problem to be two-fold. It seems to have been assumed by the designers of the present system that the ad valorem tax bases of the school districts would be sufficiently balanced so as to afford similar quality educational opportunities in each of the many districts and that the distribution of state funds under the Foundation School Program would balance differences in property wealth. The court concluded that both assumptions were erroneous: "Any mild equalizing efforts that state aid may have do not benefit the poorest districts."

Such conclusions led the court to rule that the present finance system "draws distinctions between groups of citizens depending upon the wealth of the district," thereby bringing into play wealth as a "suspect classification." Another important legal factor discussed in relation to the *Serrano v. Priest* decision, education as a "fundamental interest," was coupled with a "suspect classification" or discrimination to establish an even greater demand upon the state to prove that the present Texas school finance system is necessary to a "compelling" state interest: "Because of the grave significance of education both to the individual and to our society, the defendants must demonstrate a compelling state interest that is promoted by the current . . . financing scheme." The defense failed to convince the court that there was "even a reasonable basis for these [wealth] classifications."

In the wake of the decision, poor information about the decision was rampant. Many newspapers reported that the ad valorem tax had been ruled unconstitutional; even a news commentator on nationwide TV made such a statement. The December 23 decision states that by their "operation" present Texas ad valorem tax statutes as they apply to financing the public schools are unconstitutional. In its **Clarification of Original Opinion**, issued on January 26, 1972, the court further makes its intent even more explicit. In addition to the explanation of the word "operation," the court also provides interpreters with a clear indication of its intent by charging the defendants "to reallocate the funds available for financial support of the school system, including, without limitation, funds derived from taxation of real property by school districts." Why

would the court have specifically referred to ad valorem taxes in this manner if it had ruled the tax per se unconstitutional?

Another bit of misinformation which flowed across Texas and the nation was that the ruling required an equal expenditure per child in every district of the state. Both the California Supreme Court and the federal court in Texas specifically addressed themselves to the issue and declared this not to be the intent of the respective courts. In Rodriguez the court cites that the "plaintiffs have not advocated that educational expenditures be equal for each child."

To clarify matters pertaining to the ability of school districts to sell school bonds and the status of opportunities to appeal the ruling, the court issued its three-page **Clarification of Original Opinion**. The Attorney General was assured that the decision could be immediately appealed to the Supreme Court. Also, everyone concerned about school bond problems was reassured:

This order shall in no way affect the validity, incontestibility, obligation to pay, source of payment or enforceability of any presently outstanding bond, note or other security issued, or contractual obligation incurred by a school district in Texas for public school purposes nor the validity or enforceability of any tax or other source of payment of any such bond, note, security or obligation; nor shall this judgment in any way affect the validity, incontestibility, obligation of payment, source of payment or enforceability of any bond, note or other security to be issued and delivered, or contractual obligation incurred by Texas school districts, for authorized purposes, during the period of two years from December 23, 1971, nor shall the validity or enforceability of any tax or other source of payment for any such bond, note or other security issued and delivered, or any contractual obligation incurred during such two year period be affected hereby; it being the intention of this Court that this judgment should be construed in such a way as to permit an orderly transition during said two year period from an unconstitutional to a constitutional system of school financing.

In other words, except for planning a new system and appealing the decision, it is the intent of the court that Texas shall have school as usual for the two-year period of the stay.

Moving from consideration of what the court did not do to what it ordered, the reader should devote thoughtful attention to the spirit of the order. It was ordered that the Commissioner and State

Board of Education develop and implement a school finance structure which does not make the quality of educational opportunity afforded a public school student "a function of wealth other than the wealth of the state as a whole, as required by the Equal Protection Clause of the Fourteenth Amendment of the United States Constitution."

The court referred to this concept as the principle of "fiscal neutrality" in its decision. The state may utilize any school finance plan which is consistent with this principle. The ruling is very clear: the court will not accept a plan where the ad valorem tax wealth of a school district, or any other taxing jurisdiction within the state, determines the quality of educational opportunity afforded its students. If the Supreme Court upholds the decision, this one court test must be met. The minimum aim of the court is to equalize the **opportunity** for expenditures, not expenditures per se—in essence, the reasonable equalization of resources per child.

#### NOTES



**Overview  
of  
The Texas Foundation  
School Program**

The Texas Legislature in 1949 enacted a program to guarantee a minimum level of support for the operation of local public schools. The designers built into the program support components for professional salaries, maintenance and operation funds, and transportation allotments. The state agreed to share the cost of this program with all local school districts in the state collectively on an 80-20 basis; this does not mean that each local school district pays only 20 per cent of the cost of its local program nor does it indicate that all districts share the cost of the Foundation School Program with the state on an 80-20 basis. By the use of the Economic Index, the conceptualizers of the program sought to divide the 20 per cent collective share of the costs among the districts on the basis of each district's ability to support public education.

The Foundation School Program is popularly known as the Minimum Foundation Program (MFP) since it is far from an adequate total support system even though over the years the legislature, especially the Sixty-first, has expanded the provisions of the program. For example, the MFP does not include any support for facilities, a \$168 million item in 1970-71. Local districts have also needed to supplement the MFP by employing many additional teachers, secretaries, and central office staff members; by providing additional operating funds; and by meeting expanding transportation requirements. As a result, local districts have found it necessary almost to match state support:

#### Revenue for Public Schools\*

(estimated)

|         | 1970-71       |         | 1971-72       |         | 1972-73       |         |
|---------|---------------|---------|---------------|---------|---------------|---------|
|         | Dollars       | Percent | Dollars       | Percent | Dollars       | Percent |
| Federal | 238,087,000   | 11.3    | 261,336,000   | 11.2    | 269,662,000   | 10.7    |
| State   | 1,009,450,000 | 47.8    | 1,103,731,000 | 47.3    | 1,170,863,000 | 46.3    |
| County  | 2,587,000     | .1      | 2,610,000     | .1      | 2,700,000     | .1      |
| Local   | 861,288,000   | 40.9    | 965,548,000   | 41.4    | 1,083,184,000 | 42.9    |
| TOTAL   | 2,111,412,000 | 100.    | 2,333,225,000 | 100.    | 2,526,409,000 | 100.    |

\* All tentative financial estimates and costs contained in this handbook are courtesy of the Texas Education Agency. See "Estimates and Projections for Texas Public Schools," an April, 1972, publication of the Agency.

Of the \$861,288,000 raised, by local districts in 1970-71, only \$190,110,370 was devoted to meeting the Local Fund Assignment of the MFP. The 80-20 ratio of the MFP, however, has been disseminated so thoroughly that many citizens and legislators believe the 80-20 ratio to be the ratio of sharing between local districts

and the state for total spending on elementary and secondary education.

## Computing the Cost of the MFP

Of the three basic components of the MFP, salaries for personnel constitute the greatest cost. By statutory formula the local district qualifies for a certain number of personnel. The average daily attendance (ADA) of students is the basis for determination, e.g., a district of 2578.44 ADA qualified for 127.50 units of personnel, 107 classroom teachers units, 5 aides, 5 special service units, 4.5 vocational education units, 3 special education units, 2 supervisor or counselor units, 3 principals, 3 part-time principals, and 1 superintendent (districts with 488 or more ADA qualify for one classroom teacher unit per each 25 ADA). The school district designates personnel to occupy the units that it qualifies for and chooses to use. On the basis of statutory state minimum salary schedule based on years of experience and degrees held, the Texas Education Agency (TEA) computes the MFP salary costs in the district.

Maintenance and operation costs are then computed on the basis of teacher units, \$660 per teacher unit plus \$400 per vocational teacher.

The third major MFP cost category is transportation. MFP transportation cost is determined by many variables: eligible pupils transported, length of routes, number of routes, the size of buses, and even road conditions.

The three preceding major items in MFP costs plus other much less significant items are totaled for all the school districts of the state to determine the total cost for a given school year. The following costs are for the 1970-71 school year:

### FOUNDATION PROGRAM COSTS

1970-71

(estimated)

#### Regular

|                                                                   |                |
|-------------------------------------------------------------------|----------------|
| Salaries for Foundation Program Personnel Including Teacher Aides | \$ 955,684,603 |
| Maintenance and Operation                                         | 75,266,557     |
| Transportation                                                    | 24,039,931     |
| Agency Administration                                             | 2,004,702      |
| Other Special Education Programs                                  | 7,028,189      |
| Subtotal                                                          | 1,064,023,982  |

### Special

|                                              |                 |
|----------------------------------------------|-----------------|
| Preschool Age Non-English Speaking .....     | 275,000         |
| Preschool Age Deaf .....                     | 250,763         |
| County-Wide Day Schools for the Deaf .....   | 2,008,791       |
| Incentive Aid .....                          | 1,898,493       |
| Educational Television .....                 | 592,602         |
| Regional Media Centers .....                 | 1,996,568       |
| Transportation of Exceptional Children ..... | 1,950,980       |
| Computer Services .....                      | 2,272,203       |
| Sick Leave .....                             | 3,205,000       |
| Student Teaching .....                       | 2,513,250       |
| Vocational Contract Service .....            | 127,380         |
| GRAND TOTAL .....                            | \$1,081,115,012 |

## The Local Fund Assignment

Twenty per cent of the TEA March estimates of the total cost of regular MFP items plus any credits granted on school district Local Fund Assignments constitute the State Local Fund Assignment for the next school year.

To divide the State Local Fund Assignment into 254 County Local Fund Assignments, the TEA uses the following formula which is established by law:

### ECONOMIC INDEX FOR COUNTY LOCAL FUND ASSIGNMENT

| factors                                                   | weights |
|-----------------------------------------------------------|---------|
| ASSESSED VALUATION OF THE COUNTY, Weighted by Twenty ..   | (20)    |
| SCHOLASTIC POPULATION OF THE COUNTY, Weighted by Eight .. | (8)     |
| INCOME FOR THE COUNTY AS MEASURED BY:                     |         |
| — value added by manufacture                              |         |
| — value of minerals produced                              |         |
| — value of agricultural products                          |         |
| — payrolls for retail establishments                      |         |
| — payrolls for wholesale establishments                   |         |
| — payrolls for service establishments                     |         |
| WEIGHTED COLLECTIVELY BY SEVENTY-TWO .....                | (72)    |
| TOTAL WEIGHTED COMPOSITE .....                            |         |

**COMPUTATION OF ECONOMIC INDEX**  
(in thousands)

EXAMPLE:

HARRIS COUNTY

1971-1972

ASSESSED VALUATION

|                      |            |
|----------------------|------------|
| Actual .....         | 2,699,704  |
| Weighted by 20 ..... | 53,994,080 |

SCHOLASTICS

|                     |       |
|---------------------|-------|
| Actual .....        | 399   |
| Weighted by 8 ..... | 3,192 |

INCOME TOTAL

|                      |             |
|----------------------|-------------|
| Manufacturing .....  | 2,425,473   |
| Minerals .....       | 133,932     |
| Agricultural .....   | 27,089      |
| Payrolls .....       | 2,484,532   |
| Actual .....         | 5,071,026   |
| Weighted by 72 ..... | 365,113,872 |

|                                     |             |
|-------------------------------------|-------------|
| Weighted Composite for County ..... | 419,111,144 |
|-------------------------------------|-------------|

BASIS FOR COMPUTATION

|                                   |               |                |
|-----------------------------------|---------------|----------------|
| WT COMPOSITE FOR COUNTY .....     | 419,111,144   | Economic Index |
| STATE TOTAL OF WT COMPOSITE ..... | 2,397,554,968 | = 17.481%      |

The county weighted value is divided by the total of all county weighted values to compute each county's Economic Index. The county index is a percentage which is then multiplied by the State Local Fund Assignment to determine the County Local Fund Assignment.

The County Local Fund Assignment is then divided among the school districts of the county. Each district is assigned a portion in proportion to the percentage of the county's assessed value which is contained within the boundaries of the district as the following example indicates:

# **DIVISION OF COUNTY LOCAL FUND ASSIGNMENT AMONG SCHOOL DISTRICTS**

## EXAMPLE:

### BRAZORIA COUNTY (1971-72)

|                                    |               |
|------------------------------------|---------------|
| County Economic Index .....        | 2.323(%)      |
| County Valuation .....             | \$355,399,540 |
| County Local Fund Assignment ..... | \$ 5,694,835  |

|                         | County Valuation<br>Within Each District | District Index<br>(percentage of<br>county's valuation) | Unadjusted<br>Local Fund<br>Assignment |
|-------------------------|------------------------------------------|---------------------------------------------------------|----------------------------------------|
| ALVIN .....             | \$ 55,590,040                            | 15.642%                                                 | \$ 890,786                             |
| ANGLETON .....          | 42,940,320                               | 12.082%                                                 | 688,050                                |
| DANBURY .....           | 2,800,190                                | .788%                                                   | 44,875                                 |
| BRAZOSPORT .....        | 168,328,870                              | 47.363%                                                 | 2,697,245                              |
| SWEENEY .....           | 40,103,600                               | 11.284%                                                 | 642,605                                |
| COLUMBIA-BRAZORIA ..... | 25,225,160                               | 7.098%                                                  | 404,220                                |
| PEARLAND .....          | 10,595,780                               | 2.981%                                                  | 169,763                                |
| MANVEL .....            | 7,545,510                                | 2.123%                                                  | 120,901                                |
| DAMON .....             | 2,270,070                                | .639%                                                   | 36,390                                 |
| TOTAL .....             | \$355,399,540                            | 100.000%                                                | \$5,694,835                            |

## **Fort Worth ISD, et al v. Edgar, et al**

The Economic Index and the local fund assignment process has been questioned almost from its inception. The scholastic population factor which is weighted by eight in the Economic Index formula was not recommended by its designers but by the legislators as it moved through the political process and does not measure taxpaying ability. As early as 1955, studies of the program were critical of the index and every study that has been done since has pointed up inequities. On February 10, 1970, a suit was filed setting forth these inequities in the United States District Court for the Northern District of Texas, Fort Worth Division.

The first factor in the Economic Index, assessed valuations by the county weighted by 20, has been the target of most critics. Even though the state law requires that the assessment of taxes be based on actual value of property unless a uniform percentage of actual value is used, it is common knowledge that county assessors in each of the counties use a different percentage; or, if it is the same, it is sheer circumstance. One county may use ten per cent of

actual value while another uses 30 per cent; therefore, the county which needs 30 per cent of actual value to fund county operations also causes itself to bear a higher relative County Local Fund Assignment. The plaintiffs in the case charge that "... the whims and caprice of each tax assessor-collector prevail. ..."

Not only does the county tax roll affect the County Local Fund Assignment; but, as shown earlier, the local school district's share of that assignment is also determined by the relative amount of county valuation contained in each district. By this process some school districts within a county bear an inequitable burden because of the county tax assessor-collector's predisposition to get the tax roles of local units of government within the county and simply take a percentage thereof as the county value. In this process the school system that has the best tax practices and is using the highest assessment ratio generally assumes the highest relative Local Fund Assignment in the county.

Since the second factor in the Economic Index is scholastic population weighted by eight, it needs no further discussion.

The third factor is the value added of manufactured products plus the value of mineral products plus the value of agricultural products plus the payrolls from retail, wholesale, and service establishments, totaled and weighted by 72. In investigating procedures the plaintiffs found:

(a) That the source material for computing the value of the factor "manufacture" for the school year 1969-70 was based upon the annual survey of manufacturers from the United States Department of Commerce, Bureau of Census, for the years of 1963, 1964 and 1965.

(b) That the source material for computing the value of the factor "minerals" for the school year 1969-70 was based upon information found in the report of the Bureau of Mines for the years 1964, 1965 and 1966, this report being admittedly incomplete and fragmentary.

(c) That the source material for computing the value of the factor "agricultural products" for the school year 1969-70 was based upon source materials found in the United States Department of Agricultural Statistical Reporting Service and Texas Crop and Livestock Reporting Service for the years 1964, 1965 and 1966. Such source material was limited to the breakdown of agricultural districts and not of counties. Thus, it is pleaded that the Defendants did not use any source material that was recent in origin

or even purported to report the agricultural products produced in the 254 counties of the state. At most, such reports were only estimated and were limited to certain named crops.

(d) That the source material for computing the value of the factor "payrolls" for the school year 1969-70 of retail, wholesale and service establishments was not based upon factual or accurate reports concerning such payrolls in the state, but, on the contrary, your Plaintiffs would show to the Court that the Defendants limited the subject of payrolls to the reports of employers who are covered and comply with the Texas Employment Insurance Act. All other payrolls have been excluded. The Defendants failed to follow the statutes in that in compiling the Economic Index under Section c, no effort was made by the Defendants to distinguish between wholesale establishments, retail establishments or service establishments.

It should be explained that a three-year average of this data is used in computing the Economic Index and the TEA uses the most recent data available which, in its defense, is always years behind.

## The State Available School Fund

The State Available School Fund has grown in recent years to be a substantial source of revenue for public schools. Interest from Permanent School Fund investments and certain earmarked taxes are used to pay the annual textbook bill and the remainder, \$287,159,758 in 1970-71, is divided among the school districts on a per prior year ADA basis. This source in 1970-71 amounted to \$119.45 per prior year ADA for every school district in the state but the increase in the size of this payment means little except to those wealthiest of school districts, the budget-balance districts. When the cost of the MFP in a school district is computed, the State Available School Fund entitlement is added to the district Local Fund Assignment and the difference between that amount and the cost of the MFP in the district is then paid by the state from the Foundation Program Fund; thus when the State Available School Fund entitlement goes up, it simply reduces the state Foundation Program funds paid to the school district, except in the case of the budget-balance school district.

The budget-balance school district is a district which has enough ad valorem tax wealth per pupil that when the Local Fund Assign-

ment and the district's State Available School Fund entitlement is added together, the total exceeds the cost of the MFP in the district. The district, therefore, qualifies for no Foundation Program funds; hence, it is a budget-balance district. From this one can see that the taxpayers of the wealthiest school districts in the state receive the greatest benefit from the State Available School Fund.

#### THE BUDGET-BALANCE SCHOOL

##### EXAMPLE:

District X, 1970-71

| Foundation Program Cost |              | Receipts              |             |
|-------------------------|--------------|-----------------------|-------------|
| salaries                | 981,913      | Local Fund Assignment | \$1,442,814 |
| operations              | 70,967       | State Available Fund  | 320,744     |
| transportation          | 27,276       |                       | 1,763,558** |
| Total cost              | \$1,080,156* |                       | — 1,080,156 |
|                         |              | BUDGET-BALANCE        | 683,402     |

\* has no relationship to the district's total expenditures in 1970-71

\*\* has no relationship to total district receipts in 1970-71

California has a similar per capita grant which is discussed at length in the *Serrano v. Priest* decision. A flat grant of \$125 per pupil per year is provided to each school district regardless of the relative wealth of the district. The court concluded that this type of aid "actually widens the gap between rich and poor districts."

## Local Fund Assignment Credits

A Local Fund Assignment credit as mentioned earlier without explanation is, in effect, a reduction of the Local Fund Assignment. When a school district's Local Fund Assignment is reduced, the amount of state Foundation School Program funds to which the district is entitled increases by a corresponding amount. The credits, established by statute, have become increasingly significant in recent years. In 1970-71 the gross State Local Fund Assignment was \$217 million but credits were granted to local school districts in the amount of \$27 million. It should be noted that the state does not bear the burden of these credits but adds them to the State Local Fund Assignment for the next year thereby forcing the other school districts of the state to bear the financial burden caused by the granting of credits.

There are several types of credits, but two have caused the greatest controversy under the present system and are particularly distressing to school districts that do not get to call the tune but must pay the fiddler.

#### THE MAXIMUM TAX RATE CREDIT

In its origination this credit was designed to protect the poor common school districts from an excessive local tax burden. It is computed by applying the maximum legal maintenance and operation tax rate, \$1.50 per \$100, less the district's interest and sinking rate to the assessed value of property within the district for county purposes; then the difference between that amount and the amount of the district's Local Fund Assignment is the maximum tax rate credit. The combination of a county using a low assessment ratio and a school district in the county having a relatively high Local Fund Assignment often results in a maximum tax rate credit. It is apparent that this type of credit as now applied has no relation to a school district's need for the state's financial assistance; for example, Brazoria County, one of the richest counties in the state, has several of its school districts receiving the maximum tax rate credit while they are, relatively speaking, some of the most affluent school systems in the state. Not only does the granting of credits, \$15 million in 1970-71, to such school districts have no relationship to equalization, but because credits granted in one year are added to the State Local Fund Assignment of the next year, the ad valorem taxpayers of the other districts in the state are helping to pay the bill for public education in those communities which in most cases are better able to pay their own bill.

#### EXAMPLE:

|                                                        |              |
|--------------------------------------------------------|--------------|
| District X, 1972                                       |              |
| Valuation for School Tax Purposes                      | \$69,695,470 |
| Tax Rate Required to Service Bonds                     | 42¢          |
| Local Fund Assignment                                  | 286,220      |
| Valuation for State and County Tax Purposes            | 21,016,048   |
| \$1.50 Maximum Maintenance and Operations Rate         |              |
| — .42                                                  |              |
| \$1.08 rate for computation of maximum tax rate credit |              |
| applied to 21,016,048                                  | 226,973      |
| Local Fund Assignment                                  | \$ 286,220   |
|                                                        | —226,973     |
| Maximum Tax Rate Credit                                | \$ 59,247    |

## Loss to Budget-Balance Schools

The credits to budget-balance schools have been a source of concern since the Governor's Committee on Public Education raised questions regarding this practice, as well as the granting of other types of credits. This credit amounted to \$6 million in 1970-71, a sum which will be borne by the taxpayers of the other districts of the state in 1971-72. The credit is not really a credit at all, but a loss. The loss results when a district's Local Fund Assignment is greater than the cost of the MFP in that district; the law does not then require the district to pay the state the difference. The difference is lost and the loss becomes technically a credit. In the example of a budget-balance school district on page 19, the district's Local Fund Assignment was \$1,442,814 while the total cost of the MFP in the district was \$1,080,156 which resulted in a loss from the 1970-71 State Local Fund Assignment of \$362,658 that was added to the 1971-72 State Local Fund Assignment.

## CONCLUSION

For purposes of review, consider the following items which make the present system vulnerable to attack through the courts:

- 1) a minimum Foundation School Program that not only requires 80-20 state-local sharing of the cost but assumes substantial local effort above the MFP in order to provide any semblance of a quality educational program, making the quality of the educational opportunity afforded the youth of a particular district a function of the ad valorem tax wealth of that district;
- 2) an assumption in the system that ad valorem tax wealth would be fairly equally distributed and that the equalization factors in the MFP would sufficiently compensate for any disparities in local wealth;
- 3) an assumption that the Economic Index is a reasonably accurate measure of the taxpaying ability of the county;
- 4) an assumption that the percentage of a county's tax role contained within a school district is an equitable measure of that district's relative ability to pay taxes;
- 5) a flat grant per prior year ADA from the State Available School Fund without regard for a district's relative wealth; and
- 6) a system of credits on district Local Fund Assignments which has no relationship to the district's taxpaying ability and, in addition, which places a burden equal to the credits granted on the taxpayers of the other districts in the state.



**Review  
of  
Prior Texas School  
Finance Studies**

## Governor's Committee on Public School Education

After the expenditure of a million dollars on research and three years of study, the Governor's Committee on Public School Education made its report to the Sixty-first Legislature in 1969. Even though some ad valorem tax experts contended that the procedures used in the tax phase of the study were less than perfect, few challenged the basic conclusion—inequities and irregularities are the rule rather than the exception.

Some interesting findings were:

- Even in those school district tax offices that are considered to be the best, preferential treatment is given to certain classes of property.
- Relatively few tax offices have real estate appraisers, and few assessors or employees attend tax schools and seminars. Most do not understand how to assess banks. A large majority of the offices have no maps or appraisal cards and thus no semblance of equalization or uniformity in assessments.
- A few districts simply use the values submitted by property owners and do not have a board of equalization to approve the roll or equalize assessments. One assessor said the school board could not get anyone to serve on the board of equalization.
- In at least one district, the assessing procedure was established by the WPA in 1933 and no improvements in operation have been made since.
- In one district, every brick house is assessed at \$1,000 and every frame house at \$500, regardless of size or age. A large number of assessors add new construction to their rolls at a fairly high percentage of actual cost, but never reappraise older buildings. The new property owners may be paying on 75 per cent of value, while the older property is assessed at 5 or 10 per cent of its worth.
- In one district, every Negro resident is apparently assessed a flat \$300 for personal property ownership.
- Several of the assessors and school superintendents were emphatic in stating that they assessed local property at much less than industry and would continue to

do so because industry is better able to pay than local property owners. One part-time assessor (who is a bank president by trade) said it was not necessary to appraise property, but that local property owners are assessed at about 25 per cent of true market value and nonlocal at about 40 per cent. The assessor is also a large land owner.

The Governor's Committee also documented well the inequities which result from using county tax roles in determining the county's ability to pay taxes in relationship to the other counties in the state and in determining a school district's ability to pay taxes in relationship to the other districts of the county. Comparing one county tax role to another was found similar to comparing grapefruit to watermelon because of the vast differences found in assessment ratios, treatment of certain classes of property, and other tax practices.

Possibly even more important, the Committee focused its attention on the instructional program. The Foundation School Program was found to be, indeed, a **n.inimum** program; and the school districts that, because of the lack of a sufficient ad valorem tax base, were forced to limit their offerings to the MFP were found wanting in the provision of a quality educational opportunity.

To improve the equalization of educational opportunity, the Committee recommended the inclusion in the Foundation School Program of most of the factors necessary for the provision of a quality educational opportunity. The Minimum Foundation Program would have been expanded over a ten-year period to a basic Foundation School Program by

- allocation of teachers (classroom and vocational combined) at a ratio of one per 24 current ADA
- allocation of supporting professionals at a ratio of one per 100 current ADA
- provision of paraprofessional aides at a ratio of one per 100 current ADA
- provision of an operating allowance on the basis of \$50 per current ADA
- provision of a \$400 bonus allotment per vocational teacher (enacted)
- provision of a kindergarten program (enacted)
- provision of a summer school program
- adoption of a progressive state salary schedule (modification enacted, HB 240 of the Sixty-first Legislature)
- provision of higher salaries in hardship recruiting areas.

In addition, a state-financed supplementary program for drop-out prevention and reclamation of undereducated adults was recommended that would have

- provided one additional supporting professional, one additional paraprofessional aide, and a \$1,000 additional operating allowance for each 100 "educationally handicapped" students in ADA
- provided a state-guaranteed free adult education program.

The above-mentioned program recommendations are not all-inclusive but do include most of the basic cost factors included in the recommended program.

To finance the recommended Basic Foundation School Program, the Committee developed new procedures for state-local cost sharing. The use of the county tax roll would have been eliminated altogether in determining the local district's share of the cost; instead, the market value of taxable property within the district would have been the sole determinant. Through research, the Committee found that actual local effort required to meet the Local Fund Assignment ranged from 2c to 30c per \$100 of true market value of property within the district and that the statewide average effort was 13.8c per \$100 of true market value in 1968-69. The Local Fund Assignment of a school district would have been set for 1969-70 at an amount equal to a rate of 20c per \$100 of true market value of property and each year thereafter it would have been graduated 1c per year to 30c in 1979-80, except that no district would have been asked to increase its rate effort by more than 5c per year. Under the plan, it would have been necessary for the State Board of Education to conduct continuing studies of actual property value and for the legislature to enact a documentary stamp tax to provide assessment-sales ratio information.

The Governor's Committee reported that the plan would

- recognize the fact that the expanded Basic Foundation School Program will absorb a large share of present enrichment expenditures by local districts,
- require all districts to make a reasonable minimum local tax effort similar to that which committed districts already make;
- maintain a fair balance between taxes on property and nonproperty taxes for the support of public education; and
- permit the establishment of a combined state-local school finance pattern adequate to the requirements of a long-range plan for national leadership.

In addition, it would have eliminated two troublesome problem areas of the present finance system which were described earlier: (1) the maximum tax rate credit by making credits unnecessary and (2) the per capita payment to local districts from the State Available School Fund by placing the revenue in the Foundation Program Fund. Losses resulting from budget-balance districts, however, would have continued.

Whether or not the adoption of the basic program components and finance procedures recommended by the Governor's Committee would have prevented the Rodriguez suit or the nature of the court decision is a matter of conjecture. One thing, however, is clear: the Foundation School Program would not have been minimum. In addition, each public school student in the state system would have been provided a quality educational opportunity financed by a more uniform tax effort on the part of all school districts.

One basic issue considered by the court would have remained even if all of the recommendations of the Governor's Committee had been enacted. Even though those proposals in 1971-72 would have ensured \$500 per pupil expenditures, exclusive of debt service, in each of the school districts of the state, local enrichment to the level of \$1200 per pupil expenditures would still have existed in those districts where a great deal of money can be raised with little effort on the part of the average taxpayer. If the floor had been quality, would the ceiling have disturbed the court? In *Serrano v. Priest* the court cited that in Los Angeles County, where the plaintiff students reside, per pupil expenditure ranged from \$577 to \$1231.

## Committee of Eighteen

When it became obvious that the Sixty-first Legislature would not alter the state system of financing public education, an interim committee was authorized by the legislature to continue the study of school finance problems. The committee was given \$25,000 in funding and was asked to report to the Sixty-second Legislature. The members were not appointed until well into 1970 which gave them less than a year to function.

A plan was presented to the group as one alternative which might be considered. It, however, was the only plan offered to the group; therefore, most of the committee's energies went into

refining the plan until a majority of the eighteen members could accept it as the committee's recommendation to the Sixty-second Legislature.

The Committee of Eighteen submitted its report to the legislature in the form of two bills, one (SB 406) a change in the method of determining Local Fund Assignments under the Minimum Foundation Program and the other (SB 407) a property transaction recording measure.

In the proposed method of determining each district's local fund assignment, an index of each county's ability to support public schools would continue to be compiled; however, a new formula would be used.

#### COUNTY ECONOMIC INDEX

| PRESENT FORMULA                                               |        |                |
|---------------------------------------------------------------|--------|----------------|
| Factor                                                        | Weight | Weighted Value |
| A. County assessed valuation                                  | X 20   |                |
| B. Number of scholastics                                      | X 8    |                |
| C. Value added of manufactured products                       |        |                |
| + value of mineral products                                   |        |                |
| + value of agricultural products                              |        |                |
| + payrolls from retail, wholesale, and service establishments | X 72   |                |
| Total of weighted values from A,B,C.                          |        |                |

| COMMITTEE OF EIGHTEEN FORMULA                                                                                                                                                                                                                                               |        |                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|----------------|
| Factor                                                                                                                                                                                                                                                                      | Weight | Weighted Value |
| A. Value added of manufactured products                                                                                                                                                                                                                                     |        |                |
| + value of mineral products                                                                                                                                                                                                                                                 |        |                |
| + value of agricultural products                                                                                                                                                                                                                                            |        |                |
| + payrolls from retail, wholesale, and service establishments                                                                                                                                                                                                               | X 72   |                |
| B. True market value of assessed real property and certain tangible personal property (specifically pipe lines, power lines, telephone lines, telegraph lines, transmission cables, and mobile homes) in each school district or portion of a school district in the county | X 28   |                |
| TOTAL of weighted values A + B                                                                                                                                                                                                                                              |        |                |

A comparison of the present and proposed formulae indicates that the **dominant factor in the present formula would remain weighted at 72** in the proposed formula, but scholastics and county

valuations by the county tax assessor would no longer be used. In the place of county valuations and scholastic population, the Committee of Eighteen formula would include the true market value of assessed real and certain tangible personal property as determined from school district reports to the TEA.

School district reports required by the TEA would include the value of taxable real property (and certain tangible personal property as shown in the proposed formula) as assessed the immediately preceding year for school district purposes and the per cent of true market value which the assessment represents. In cases where a school district contains areas within more than one county, the report would necessarily reflect the portion of school district values held within each of the counties.

From the school district reports, the TEA would compute the true market value (of the classes of property reported) within each school district and each county. A three-year average of the most recent data available would then be used to compute the County Economic Index.

After the County Economic Index had been computed and the county's share of the State Local Fund Assignment determined, the TEA would divide the County Local Fund Assignment among the school districts which have areas within the county by dividing the true market value of real and certain tangible personal property in the county into the true market value of such property within each district or portion of the district and finally applying the resulting percentage to the County Local Fund Assignment.

Another part of the 1976 draft specified that the new formula be gradually introduced over a three-year period. This would have been accomplished by assigning 20 per cent of the 1972-73 total to be assigned to the local school districts of the state on the basis of the proposed formula and 80 per cent of that amount on the basis of the old formula; 40-60, in 1973-74; 60-40, in 1974-75; 80-20, in 1975-76. A school's Local Fund Assignment would not have been based 100 per cent on the proposed formula until 1976-77.

In addition to the proposed procedure for determining gross Local Fund Assignment, the Committee of Eighteen recommended two significant changes in the credit provisions of the Minimum Foundation Program statutes. The present "plow-back" feature, mentioned in the presentation of the present system, would have been removed. This "plow-back" feature is the provision which

causes every school district in the state to share the cost of all credits granted on Local Fund Assignments; it works by adding the amount of credits granted in a given year to the share of the Minimum Foundation Program costs to be borne by the local school districts of the state during the next year. Without it, the state general revenue fund would then have assumed the financial burden of all Local Fund Assignment credits which were granted. The Committee of Eighteen also recommended that the present maximum tax rate credit be removed and a new credit substituted. The new credit would have limited a district's net local fund assignment to an amount equal to the maximum maintenance and operation tax rate times each \$100 of 30 per cent of the true market value of all taxable property assessed by the district.

In order to facilitate establishing true market value, the Committee felt it necessary to have a property transaction recording measure. It felt that without easily accessible public records on the prices paid for property as parcels change owners, the cost of establishing the true market value of property would be prohibitive. A small recording fee was included as a part of SB 407 to provide funds for conducting the recording program.

Even though many state leaders felt that the Committee of Eighteen recommendations were a step in the right direction, it is doubtful that the passage of SB 406 and SB 407 by the Sixty-second Legislature would have prevented the judgment against the Commissioner and State Board of Education in *Rodriguez v. San Antonio ISD*. The Committee of Eighteen proposals would have (1) improved the equalization of taxpayer effort to provide the Local Fund Assignment of the MFP; (2) prevented relatively wealthy school districts from, in effect, getting additional state aid through a loophole, the present maximum tax rate credit; and (3) shifted the burden for worthy Local Fund Assignment credits from all of the school districts to the state. These actions, meritorious though they be, do not address the issues which most concerned the court. The MFP would have remained unchanged which means that much considered basic to a quality educational program would necessarily be nonexistent or be provided through local ad valorem tax effort; therefore, quality education, or the absence of it, would have remained a function of the ad valorem tax wealth of the school districts. Where oil, heavy industrial complexes, or a high percentage of affluent homeowners exist within a district, the chil-

dren would have continued to be provided, with a relatively low tax effort on the part of the average resident, such things as completely air-conditioned and carpeted buildings, experienced master's degree teachers who are paid well above the state average, and heated indoor swimming pools. Where these ad valorem tax factors do not exist, the taxpayers would continue to make a relatively high effort to produce much less revenue per student for the enrichment of the MFP—a tax more, provide less system which makes the quality of educational opportunity in a state system of education a function of the local district's ad valorem tax wealth, rather than a function of the wealth of the state as a whole.

#### NOTES



**Review  
of  
National  
Education Finance  
Project Findings**

The National Educational Finance Project, a \$2 million effort funded by the U.S. Office of Education, has produced approximately a dozen volumes of research reports bearing 1971 publication dates. The study was prompted by the increased number of taxpayer revolts that have caused not only retrenchment but the actual closing of many schoolhouse doors for a period of weeks and sometimes more. These actions dramatized the nationwide need for basic research in the area of school finance.

As events have evolved, the study has become even more timely than its conceptualizers realized. With court findings in Alabama, California, Minnesota, Wyoming, Texas, and New Jersey and with some 39 other suits resulting from plaintiff success in those states, the publication of the results of such a study could hardly have been more timely.

It would be grossly unfair to Roe L. Johns, project director, and his staff if the writer claimed that the following paragraphs contain a summary of their publications. The following publications are an attempt to present key facts and concepts discussed in **Future Directions for School Financing**, a 61-page monograph that reduces the study to manageable proportions for the layman; this publication and others developed in the study are available from the National Educational Finance Project, 1212 Southwest Fifth Avenue, Gainesville, Florida 32601. Anyone who wishes to involve himself in an attempt to understand school finance problems and alternative solutions should secure the above-mentioned monograph; **Alternative Programs for Financing Education**, Volume 5 of the National Educational Finance Project publications; and a list of materials available from the Project.

In reviewing the statements of beliefs and goals produced by national policy groups, White House Conferences, etc., the Project staff found the following elements commonly set forth:

- We believe the opportunity to obtain a public education should be substantially equal for all children and youth and should be appropriate to their needs.
- We believe public education should strive to remove class and caste barriers and to promote social mobility in our society.
- We believe that every American child, regardless of race, national origin or the economic condition of his parents, should be given an equal opportunity in the

public schools to develop his talents to their fullest extent in order that he may have full access to the benefits of the American social, economic and political system.

- We believe in American democracy and are convinced that a broadly based and adequately supported system of public education for all children is essential to its preservation.
- We believe that by raising the educational level we not only contribute to the success of popular government, but also to the reduction of poverty, crime and dependence upon programs of public welfare.
- And, most importantly, we believe that the educational opportunity of every individual should be a function of the total taxable wealth of the state and should **not** be limited to the taxing ability of a local school district.

In order to meet the preceding standards, states must

- equalize educational opportunity
- equalize the tax burden necessary to support the state system of public education
- develop greater efficiency in operation
- ensure accountability by all responsible for providing public education.

## Do the States Provide An Equalized Educational Opportunity?

The ideal of equal treatment under the law and equal opportunity in terms of access to a similar quality education has been given lip service; but the research of the NEFP staff caused it to answer with a resounding "no." In answering, a question was posed:

**Does the child who attends a school in a district that manages to raise \$500 per pupil per year through struggle and sacrifice have the same opportunity as the child who attends a school that raises \$1,200 or more per pupil per year with a lower level of effort?**

Wide variations in both ability and effort to support public education were found to exist within regions, between states, and within states.

Since most state systems of public education were designed with the assumption that local school systems would provide a large

portion of the funds necessary to support the local program, the variations in quality of educational opportunity were, therefore, found to be largely a function of the size of the ad valorem tax base in relationship to the number of pupils served. The variations, however, could not be solely attributed to the ad valorem tax base; differences were also observed to be a result of varying local and state effort.

## Should We Spend An Equal Number of Dollars on Each Child?

It has been said that there is nothing more unequal than the equal treatment of unequals. NEFP reached the same conclusion based on its research. It costs more to meet the needs of handicapped children, students in vocational education, undereducated adults, etc., than it does to educate the average elementary pupil. The following relative weights were derived by NEFP:

| Education Program           | Weight Assigned |
|-----------------------------|-----------------|
| Basic elementary grades 1-6 | 1.00            |
| Grades 7-9                  | 1.20            |
| Grades 10-12                | 1.40            |
| Kindergarten                | 1.30            |
| Mentally handicapped        | 1.90            |
| Physically handicapped      | 3.25            |
| Special learning disorder   | 2.40            |
| Compensatory education      | 2.00            |
| Vocational technical        | 1.80            |

Even though NEFP qualified the report by stating that determination of proper weights is not final and not applicable to a particular state, they provide a good indication that it costs nearly twice as much to educate the mentally handicapped as it does to provide for the average elementary student. Consideration of these differences is strongly recommended to states as they attempt to equalize educational opportunities.

## Should School Facilities be Considered In Equalization Plans?

"Yes!" is the answer of NEFP. A shortage of 500,000 classrooms existed in 1968, the study reports. According to the best estimates

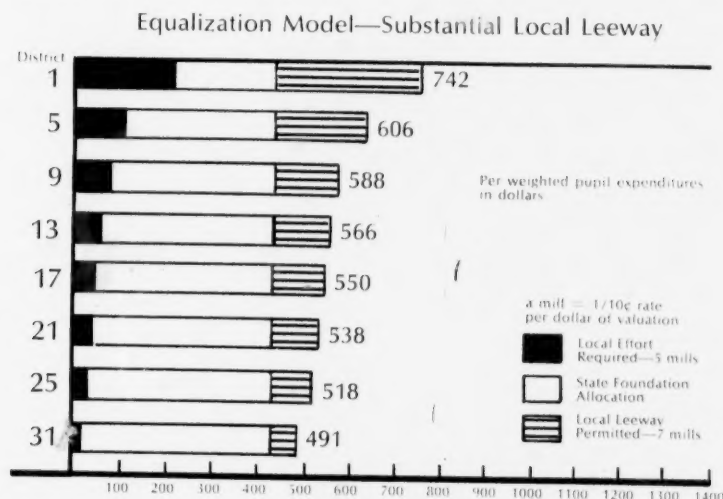
of NEFP, the nation will need 120,000 classrooms annually at a cost of \$7.8 billion each year of the 1970's. Thirty-five states were found to be sharing the cost of schoolhouse construction in 1968-69; however, a heavy reliance on local property taxes, restrictive debt limits, and cumbersome referendum procedures were blamed for the present extreme difficulty in meeting construction needs.

In equalizing the quality of facilities as a factor in the equalization of educational opportunities, NEFP recommended consideration of the following alternatives:

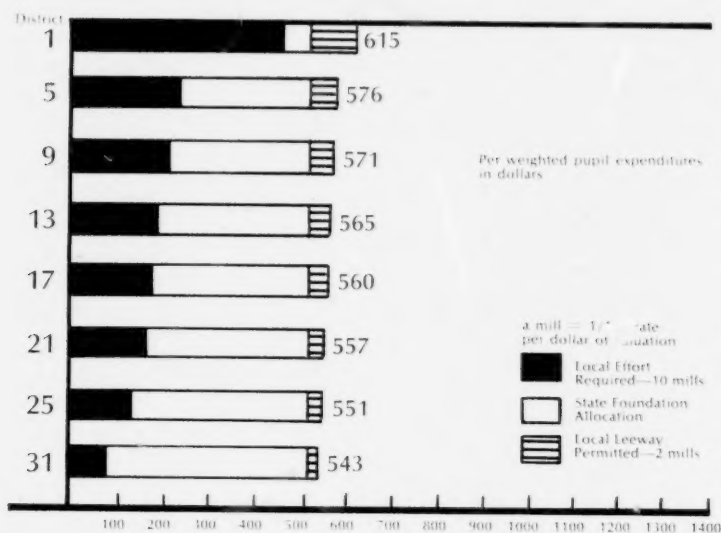
- 1) state and local indebtedness limits can be increased, or
- 2) structural changes can be made in state and local tax systems, or
- 3) the state can become an active participating partner in financing school facilities, or
- 4) federal support can be provided for construction.

## School Finance Models

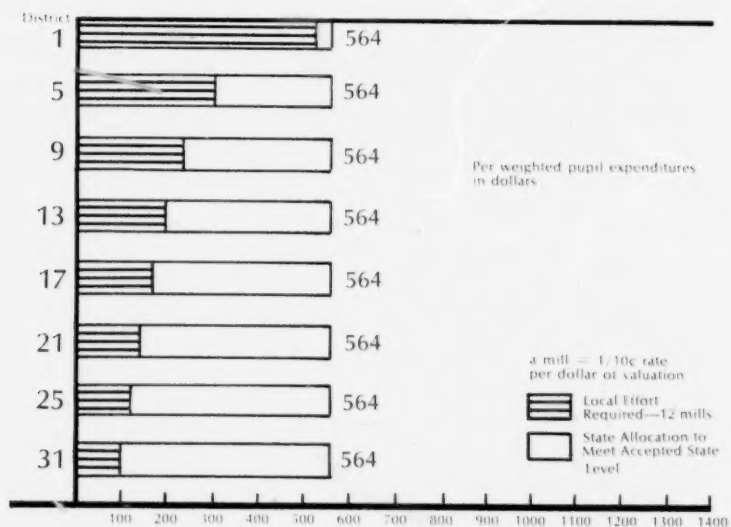
The Project attempted to evaluate basic school finance support systems in order to determine their respective abilities to provide finance equalization. To accomplish this, a prototype state was developed from the many varying kinds of school districts to be found within a state. Various finance support models were then tested on the districts of the prototype state. The results were depicted in the following graph form:



### Equalization Model—Minimal Local Leeway



### Equalization Model—No Local Leeway



These tests of models vividly illustrate the effect of local leeway based on widely varying ad valorem tax wealth: the more local leeway, the less finance equalization.

These and other model tests lead the NEFP to conclude:

1. State funds—distributed by any model examined—provide for some financial equalization, but some finance models provide more equalization than others.
2. The flat grant model provides the least financial equalization for a given amount of state aid of any of the state-local models because it does not take into account the variations in wealth of the district.
3. A flat grant model which takes into account some of the cost variations per pupil, i.e., weighting pupils, even though it ignores variations in wealth, provides more equalization than the flat grant model which fails to provide for any cost differentials and variations in wealth.
4. The equalization models which take into account cost differentials of various programs and variations in school district wealth are the most efficient methods for equalizing financial resources in states using state-local revenue allocations.
5. In equalization models, the greater the local tax leeway the less the equalization.
6. Complete equalization is attained only under a plan of full state funding or an equalization plan which includes all local school taxes in the required local effort for the state foundation program.
7. The higher the percentage of school revenue provided by the state, the greater the equalization of financial resources among districts.
8. The higher the percentage of school revenue provided from local revenue, the greater the possibility for unequal financial resources and unequal educational opportunity in the state. A complete local support model provides no equalization among districts whatsoever.
9. The higher the per cent of state funds provided, in relation to local revenue, the greater the progressivity of the tax structure for school support. State tax sources are generally more progressive than local tax sources.
10. The higher the per cent of federal funds provided in relation to state and local revenues, the greater the progressivity of the school tax structure because federal taxes are generally more progressive than state and local taxes.

## What Are the Sources of Public School Revenue?

The national average for 1970-71 was

|         |             |
|---------|-------------|
| local   | 52 per cent |
| state   | 41 per cent |
| federal | 7 per cent. |

(See comparable Texas figures on page 12.) Of the 52 per cent raised by local units of governments to support public education, 98 per cent was derived from one source—the ad valorem tax.

In discussing tax sources, NEFP set forth three concepts which should be considered in evaluating a tax:

1. A tax should not alter economic behavior.  
It should not cause goods or services to be reduced or leave the state; it should not alter attitudes or become the basis for decisions on locations of plants, buildings or business sites, and it should not reduce the willingness of people to work and to produce.
2. A tax should be equitable.  
All persons in the same economic circumstances should be treated equally. The tax should be based on the taxpayer's ability to pay and should be progressive in relation to his income or at least should rise in proportion to the taxpayer's income.
3. A tax should be collected effectively.  
Tax statutes should not have loopholes, nor should they be so drawn that they can be evaded.

The ad valorem tax was found wanting by all three standards. In evaluating the tax, it was found that:

- a. It becomes largely a tax on housing.
- b. It tends to discourage rehabilitation of deteriorating property.
- c. It tends to affect decisions by business and industry with regard to locations and plant sites.
- d. It does not bear equally on business, favoring those with a low ratio of property to sales.

There are still more problems. Different assessment practices tend to make it unequal for taxpayers. Then, too, ownership of property is not necessarily correlated with either income or wealth, often having little relationship to the ability to pay taxes. Older persons on small fixed incomes are an example. The yield from a given property tax depends on the industriousness of the assessor and the treasurer. Property tax revenues often lag

behind national income. And finally the property tax is used so heavily by local governments it is often not capable of yielding significant increases for local schools when increases are needed.

In spite of the findings of research groups, which is not news to the average citizen, Texans must consider the problems inherent in replacing the ad valorem tax. It would take approximately a billion dollars annually from another tax source to replace the ad valorem tax in our present program for the 1973-74 school year. A billion dollars would also be the minimum figure if, in response to the Rodriguez decision, the state sought to bring the poor districts up to the present average program and the wealthy districts down to that average program. Few leaders in public education, however, have expressed a willingness to accept averaging but have expressed a desire to bring all programs up to a level as near as possible to the finest public school systems in the state. No one knows at this time what that type of effort would require in new tax dollars, but it is safe to assume an increase of \$450 to \$650 million annually would be the minimum required. A worthy goal might be the stabilizing of the ad valorem tax at an equalized rate near the present statewide average effective rate for school districts.

In NEFP research, 45 states were found to be using the sales tax; 41, the personal income tax; and 43, the corporate income tax. The following advantages were listed for personal and corporate income taxes.

#### Graduated Personal Income

- a. It is directly related to the most generally accepted measure of taxpaying capacity—the income of the taxpayer.
- b. It can be adjusted through use of exemptions or credits to take into account special circumstances, e.g., illness of a taxpayer, size of family, unusual expenses or other hardships.
- c. It is easy to collect through payroll deductions.
- d. It has a high degree of elasticity in that revenue increases as the taxpayer's personal income increases, particularly if the rates are progressive.

#### Corporate Income Tax

- a. Revenue generally increases with increases in corporate income.

- b. It can be equitably applied.
- c. It can be structured in such a way as to hold administrative costs and problems to a minimum.
- d. It is not likely to cause economic distortions unless the state's rate is much higher than neighboring states.

(By tracking the federal income tax program, the Texas Research League has estimated that Texas can raise approximately \$300 million per each 1.5 per cent of rate.)

In conclusion, the variations in expenditure levels between the states were explained by NEFP to be largely a result of their varying fiscal ability as measured by net per capita personal income. An average of \$1,000 per ADA was spent by the five states with the highest net per capita income while the five poorest as measured by the same criterion was only \$574 per ADA. It is interesting to note that differences within states were found to be greater than differences between states.

## NOTES

Appendix A

**Texas School  
Finance Studies  
In Progress**

The Rodriguez decision made it paramount that a new state system of school finance be devised. Several political officers, associations, and research groups have launched studies. Because of the general interest in the activities of these committees, the members of each are listed below with brief comments regarding the assumed role and/or progress of the respective committees at the date of reprint, August 26, 1972.

#### STATE BOARD OF EDUCATION SPECIAL COMMITTEE ON SCHOOL FINANCE

Ben R. Howell, El Paso, Chairman  
Vernon Baird, Fort Worth  
Jack Binion, Houston

Doyle Corley, New Boston  
Paul Haas, Corpus Christi  
Herbert O. Willborn, Amarillo

The State Board of Education passed the following motion:

The State Board of Education requests the Attorney General, the Honorable Crawford Martin, to appeal to final decision the Order of the United States District Court, Western District of Texas, San Antonio Division, Civil Action No. CA-68-175-SA.

The State Board of Education, under the authority granted it by the Texas Constitution and state statutes, assumes full responsibility for developing a proposal to be submitted to the Governor, the Legislature, and the general public which will provide for financing public school education in Texas in accordance with the requirements of the final Court Order and in accordance with standards of high quality commensurate with the financial ability of Texas.

The State Board of Education invites other groups making similar studies to coordinate their findings with those of the Board so that the final proposal will represent the broadest participation possible by the citizens of Texas.

The State Board School Finance Committee met on February 11 and drafted the following statement which was adopted by the Board on February 12:

The Rodriguez case will be appealed. The Board believes it should address itself to the general problem of improving school financing in addition to considering the specific concerns in **Rodriguez**.

While recognizing that the problems of public school funding are complex and difficult to answer, the Board considers certain broad principles to be essential. The quality of education of each local school district is dependent upon the background and attitude of the citizens that reside in that district. Incentive to preserve local pride, sincere concern, and the de-

sire for standards of high quality education cannot, under any set of revised financing arrangements, be negated. Because considerable anxiety and monumental concern have developed, it is incumbent upon this Board at the very outset to take a very strong position with respect to the administration of any financing plan that might evolve from the Legislature.

At least four points should be incorporated in any plan recommended or adopted for state contribution to elementary and secondary education. These are:

1. Guaranteed funding of the state's share of basic educational opportunity for all children must continue to be a key element of any school finance plan.
2. Local taxes should continue to be used in the district collected. The capability of each local district to enhance and enrich its own program above the state basic program must be preserved.
3. The control of the local district and the administration of such funds available to that district should be vested in the citizens residing within that district, retaining the concept that decisions are best when made as close to those affected as practicable. This will require responsible district organization and financial structure.
4. The allocation of state funds shall give consideration to the ability of the local school district to provide local tax and other revenues.

The brevity of the principles should not mislead the reader to conclude that the State Board intends to ignore the spirit of the court order in the Rodriguez decision. An equalization plan can be devised that includes local enrichment; however, a reasonable limit on local enrichment or a power equalization scheme must be in any plan that meets court tests as they are presently constituted. Also, there is nothing in the court order to preclude the development of an equalization plan which permits local taxes to be collected and used within the district where collected.

The Texas Education Agency has responded to the need to devise school finance alternatives by developing a task plan for intra-Agency activity. The first task was the development of "Estimates and Projections for Texas Public Schools" to provide a common data base for all groups studying the problem. In addition to the common data base, a team is exploring ways to update and improve the present foundation school program in a manner which would make it acceptable to the courts; another team is carefully reviewing the Governor's Committee proposals to the Sixty-first Legislature in an attempt to utilize their recommendations as a

basis for the development of one alternative; and still another team is exploring the utilization of the weighted pupil concept which has been recommended by the National Educational Finance Project.

The work is progressing rapidly. A common data base has been completed with the exception of information pertaining to the market value of property—which is presently being compiled. The best market value data which can be assembled within the time frame established by the court should be available by September. The three basic alternative proposals should reach the State Board Committee by September 15.

Any refinement of the proposals and/or additional research requested by the Committee is scheduled for completion on October 21, the date on which the committee will prepare its November or early December report to the State Board.

Although the Agency staff is making an extensive effort, the TEA recognizes that all interested groups can and should work together for the benefit of the school children of Texas. Key persons from the intra-Agency task force have been assigned liaison responsibilities with the other study groups. The sharing of information and resources has been excellent to date and the Agency plans to continue this type of cooperative effort.

#### TEXAS RESEARCH LEAGUE STUDY OF FOUNDATION SCHOOL PROGRAM FINANCING

The Lieutenant Governor, alarmed by the near \$125 million increase annually in Foundation School Program costs resulting from the acts of the Sixty-first Legislature, asked the Texas Research League to study the state's school finance program. He asked that the focus of the study be ways to meet the state's obligation in the next decade. The League accepted the responsibility and outlined the following study prior to the Rodriguez decision:

1. What has been the effect of the 1969 school legislation to date?
2. What are the prospective trends in school finance for this decade under current law?
3. How could the State control the **total** cost of the Foundation Program?
  - 3.1 Elements of the program that might be eliminated or modified.
  - 3.2 Elimination of special subsidies for small school districts.
  - 3.3 Place a dollar amount per-student limit on Foundation Program costs.
  - 3.4 Modify the teacher salary provisions of the 1969 law.
4. How could the State **shift** a larger portion of the total cost of the Foundation School Program to local districts?
  - 4.1 Increase in local percentage share.

- 4.2 Base local share on fixed tax rate times uniform assessments.
- 4.3 Include all state-supported costs in the 80-20 division.
- 4.4 Eliminate excess payments to budget-balance districts.
- 5. How could the State undertake a **larger** share of school costs and be sure that this would be reflected in lower property taxes?
  - 5.1 Effect on different school districts of 100% financing of Foundation Program.
  - 5.2 Financial implications of 100% state-financed Foundation Program and 100% state-financed school system (as proposed by ACIR).
  - 5.3 How to insure property tax relief.
  - The TRL study will lay out alternatives; it will NOT make recommendations.
  - Study will NOT examine the merits of educational program components.
  - Study will draw upon relevant experience in other states.
  - Pending court cases will be watched carefully and taken into account in the report.

Since the Rodriguez decision, the focus of the study has been changed somewhat to emphasize the seeking of alternative methods for equalizing resources.

In addition to the study outlined above, the Research League has assisted the Agency in developing a data base of information regarding trends in state school finance and estimates and projections for the future. The TEA has also been aided in developing the computer capability of testing the effect of various finance alternatives on each of the school districts of Texas.

An interim report has been prepared by the Research League. The report discusses national and Texas trends regarding student population, personnel, and cost. It also includes an appendix which provides information regarding the effect of resource leveling on the school districts of Texas.

The report summary states: "Equalization at any level above the average would require a substantially greater net outlay of public funds. For example, if the equalization point were set at \$100 above the state average for 70-71 (i.e., \$804), the net additional cost to the taxpayers would be nearly \$248 million per year. This would provide equalized resources for 86 percent of all Texas public school children, but still would entail revenue losses aggregating \$59 million by 401 districts enrolling 14 percent of all students.

"The net cost grows very rapidly as the level of equalization is increased:

- To equalize resources for 90 percent of the children would cost \$388 million, yet 324 districts would suffer revenue losses.

- To equalize resources for 95 percent of the children would cost \$630 million, despite the fact that 233 districts would have less revenue per child.
- To equalize resources for 99 percent of the children would cost \$1.4 billion in additional annual taxes, and still there would be 102 school districts with decreased revenues.
- To provide equalized resources for 99.9 percent of the children would increase annual costs of nearly \$2.5 billion. Even so, 36 districts would lose revenue.

"It should be noted that these estimates are based on 1970-71 data. Further enrichment by the more affluent districts during 1971-72 and potential increases in 1972-73 could substantially increase the net cost of equalization."

The TRL has plans for publishing another interim report in early fall. It will contain an extensive analysis of 1970-71 revenue and expenditures under the present system. Tabulations by individual school districts and by classes of school districts will be reported. This analysis promises to be of great value to the groups studying issues in school finance.

#### TEXAS ASSOCIATION OF SCHOOL BOARDS FOUNDATION SCHOOL PROGRAM AND FINANCE COMMITTEE

|                                                   |                                |
|---------------------------------------------------|--------------------------------|
| Albert D. Brown, Jr., North East ISD,<br>Chairman | George Oser, Houston ISD       |
| Mervil Moore, Laredo ISD                          | Rayford Bates, Seminole ISD    |
| Charles Waters, Lubbock ISD                       | Charles McClure, Jacksboro ISD |
|                                                   | Ben Abney, Woodsboro ISD       |

On April 22 the TASB Committee developed a broad general policy statement on school finance. After the review and approval of the TASB Executive Committee, the following general policy statement was published in the June issue of the **Texas School Board Journal**:

#### GENERAL POLICY STATEMENT SCHOOL FINANCE

The State Board of Education is to be commended for assuming leadership in seeking to develop a school finance plan which will equalize both educational opportunity and taxpayer effort in the state system of public education. The Board is to be further lauded for ensuring extensive breadth of involvement in developing a finance plan by inviting all interested groups to coordinate their efforts with those of the Board.

In this endeavor the State Board of Education should be the coordinating group. Such action would be consistent with the authority granted it by the Texas Constitution and state statutes. In addition, the Board is elected by the people of Texas to govern the

state system of public education; it, therefore, has credentials that can be given no other group even if one ignores the human and financial resources in the Texas Education Agency that are available to the Board.

Recognizing that the above-mentioned facts, the Texas Association of School Boards herein offers its resources and cooperation to the State Board; and the school boards, which govern the local school districts educating ninety percent of the State's youth, urge that all interested groups make a similar commitment in order to avoid the waste of resources by the needless duplication of research. The overall coordination of the State Board should not only be welcomed but sought.

The Texas Association of School Boards recommends that the following tenets be embodied in any finance plan enacted by the Texas Legislature:

- the decisions regarding public education should be made at the level of government closest to the people affected by the decisions
- a foundation school program should be funded automatically rather than subjected biennially to the appropriations process
- the quality of educational opportunity should be equalized without requiring a reduction in the quality of educational opportunity that is presently provided; however, it should be recognized that quality is not determined solely by the level of per pupil expenditures
- a high quality educational opportunity for every public school student should be ensured by a comprehensive foundation school program
- the local ad valorem tax effort should be stabilized at the present statewide average level of effort as partial support for the state system of public education while additional funds needed for quality education should be provided through broad-based state taxes
- the local district's share of the cost of the foundation school program should, as a minimal revision of the current formula, be determined by the true market value of taxable property within each school district except that agricultural land, owned by natural persons who derive more than fifty percent of their income from agricultural uses of the land, should be valued in relationship to agricultural productivity as provided for in Article 8, § 1-d, of the Texas Constitution
- the quality of school facilities should be recognized as a determinant of the quality of educational opportunities provided within a community and, therefore, should be a factor that is equalized

—a power equalization plan should be instituted to ensure that each local district gets a similar number of dollars per weighted pupil for a similar taxpayer effort in providing discretionary funds to meet varying local needs not being met by the foundation school program.

On May 20 the Committee met again to develop an intermediate level policy statement that would establish TASB's position on most of the key issues regarding a state school plan. The following intermediate level statement was reviewed and approved by the TASB Executive Committee on June 16:

#### Statement of Intermediate Level Policy SCHOOL FINANCE

1. A quality comprehensive foundation program should include
  - 1.1 a personnel component that
    - 1.1a utilizes weighted\* average daily membership (ADM) as the basis of allocation without diminishing administrator motivation to stimulate and enforce pupil attendance
    - 1.1b provides local administrators with the opportunity to select from widely varying categories to meet local staffing needs
    - 1.1c offers an opportunity to continue progress toward differentiated staffing
    - 1.1d includes a state salary schedule which ensures the salary levels presently provided by HB 240 of the Sixty-first Legislature and which has significant increments based on performance factors in addition to those presently based on years of service, degrees, and college credits
    - 1.1e provides automatic salary schedule adjustments based on the cost-of-living index both at the state and local levels
    - 1.1f ensures an opportunity to meet the special urban needs, e.g., security, maintenance, school-community liaison, and communications personnel
    - 1.1g enables the State Board of Education to provide the breadth of program necessary to ensure a quality educational opportunity in sparsely settled districts
    - 1.1h ensures funding to all districts for fringe benefit programs at a level adequate to continue those programs presently in existence
  - 1.2 an operations allotment that
    - 1.2a is allocated on a weighted ADM basis
    - 1.2b places added weights to certain types of pupils where they are few in number within a district causing greater per pupil cost in meeting their needs
  - 1.3 a transportation allotment that
    - 1.3a is determined by actual cost within a realistic limit
    - 1.3b provides the funds necessary to implement integration plans that result from federal orders
    - 1.3c empowers the State Board to approve, on an individual district application basis, additional funding to meet special local needs

\*As amended August 5, 1972

- 1.4 a facilities financing component that
  - 1.4a ensures, after maximum reasonable local effort is expended, assistance in providing school plants which are adequate learning environments both in quantity and quality
  - 1.4b provides for transition to a program which equalizes facilities as well as the other factors involved in providing quality educational opportunities
  - 1.4c maintains local autonomy in the determination of the need for facilities and the features necessary to accommodate instructional programs tailored to meet local needs.
2. The features of the system which is used to finance the comprehensive foundation program should include
  - 2.1 a state portion that
    - 2.1a is financed by broad-based state taxes in a manner similar to the automatic financing feature of the present Minimum Foundation School Program
    - 2.1b begins at fifty-five percent of the total cost of the comprehensive foundation program and increases to eighty percent of the cost
  - 2.2 a local district portion that
    - 2.2a is financed by an ad valorem tax on all taxable property with valuations being established at true market value except that agricultural land, owned by natural persons who derive more than fifty percent of their income from agricultural uses of the land, should be valued in relationship to agricultural productivity as provided for in Article 8, § 1-d, of the Texas Constitution
    - 2.2b begins at a level of local tax effort equal to the present state average and is permanently stabilized at that level
    - 2.2c is determined by using the true market value of all taxable property as the index of relative ability to support public education except that agricultural land should be valued as indicated in 2.2a.
3. Local leeway to meet unique local needs should be ensured through a plan which includes
  - 3.1 a system of power equalization that
    - 3.1a ensures a similar number of available dollars per weighted pupil for a similar taxpayer effort
    - 3.1b provides, as a function of taxpayer effort, discretionary funds to meet varying local needs not being met by the comprehensive foundation school program
  - 3.2 a reasonable limit that
    - 3.2a provides local leeway equal to 15 percent of the total cost of the foundation school program in a local district
    - 3.2b is structured to provide that no more than half of the funds available from the exercise of local leeway may be used to supplement professional\* salaries.
4. Federal funding of public education should be conducted through the Texas Education Agency in a manner compatible with the state equalization program in order to avoid creating disparities in educational opportunities.

\*As amended August 5, 1972

## JOINT SENATE COMMITTEE ON SCHOOL FINANCE (unofficial title)

### COMMITTEE TO STUDY URBAN EDUCATION

#### Senators

Oscar Mauzy, Dallas, Chairman  
James P. Wallace, Houston  
A. M. Aikin, Jr., Paris  
W. E. Snelson, Midland  
Charles Herring, Austin

#### Public Members

Will Davis, Austin  
Julius Truelson, Fort Worth  
Richard Teniente, San Antonio  
Emmett Conrad, Dallas  
Ex officio  
J. W. Edgar

### COMMITTEE TO STUDY VOCATIONAL TECHNICAL EDUCATION

Chet Brooks, Pasadena, Chairman  
Mike McKool, Dallas  
James P. Wallace, Houston  
Murray Watson, Jr., Mart

### COMMITTEE ON TAX POLICY

#### Senators on the Committee

O. H. Harris, Dallas  
Don Kennard, Fort Worth  
William T. Moore, Bryan

### SPECIAL ADVISORS COMMITTEE

Johnny Clark, Jr., Supt., Goose Creek  
ISD  
Bill Stewart, Tax Assessor-Collector,  
Lufkin ISD

C. B. Barbee, Supt., Bronte ISD  
J. Henry Perry, Supt., Floresville ISD  
George Oser, Board Member, Houston  
ISD

### ADVISORY COMMITTEE

Mrs. Laura T. Doing, Wichita Falls  
Mr. Bill Elliott, Fort Worth  
Mr. Don Brothers, Paducah  
Mr. Robert Short, Paris  
Mr. Eli Douglas, Galveston  
Mr. O. E. Hendricks, New Braunfels  
Mr. R. E. Harris, Austin  
Mr. L. B. Lohn, Houston  
Mr. James A. Cunningham, Spearman  
Dr. Terrell Ogg, Mount Pleasant  
Dr. Sebron Williams, Deer Park

Mr. Ramon Bynum, Richardson  
Mr. Fred Hill, Austin  
Mr. Langston Kerr, Lufkin  
Mr. Avery Downing, Waco  
Mrs. Pauline Fenner, Beeville  
Mr. Joe Franklin, Longview  
Mr. James S. Leeper, Midland  
Mrs. Jackie Blackstock, El Paso  
Mr. George Bond, Lubbock  
Mrs. Helen Warner, Pampa

The Lieutenant Governor called a joint meeting of the above-named groups, with the exception of the Advisory Committee, on January 6 and charged them with the responsibility of completing a comprehensive study of Texas school finance problems and alternative solutions. Senator Mauzy was named chairman of the joint committee and Senators Mauzy, Moore, and Brooks were asked to meet to plan the next step; however, the groups remained inactive through the primaries.

On the fifteenth day of May, this Committee contracted with Peat, Marwick, Mitchell & Company. The agreement, for \$124,000, calls for the contractor to review and evaluate alternative education finance models which might be used in seeking solutions to Texas problems, to develop three alternatives in financial resource allocation models for presentation to the Committee with information regarding how the three various models would affect each Texas school district, to develop an estimate of the state and local resources required to implement each of the three plans, and to

accumulate information regarding the amounts of revenue which might be generated from various revenue sources.

The staff of Peat, Marwick, Mitchell & Company has submitted a status report to Senator Mauzy. The report indicates that a company representative has made contact with six of the principal parties involved in the school finance area. A desire was expressed to each of these organizations that efforts should not be duplicated and that Peat, Marwick, Mitchell & Company hoped to work in a cooperative manner with all of the other groups in sharing both information and resources. Mark Yudof, professor at The University of Texas School of Law, has been retained to provide counsel regarding the constitutional tests which must be met.

The work of Peat, Marwick, Mitchell & Company in California for a special interest group known as the California Schools for Sound Finance has been reviewed by the leadership of the company's Texas effort. The group states that it has completed steps Two, Three, and Four in the contract:

Step Two: Define the existing Texas School Finance System.

Step Three: Document recommendations for primary characteristics of alternative education finance models for Texas which are the result of a recent investigation into this issue.

Step Four: Evaluate recent national research on education finance policies and alternatives.

The staff plans to review finance models utilized in other states; conduct inquiry regarding the opinions of Texas educators, legislators, and others regarding the desirable components of a public education finance plan for Texas; and document a tentative list of alternative resource allocation models. With a contract completion date of mid-December, the staff hopes to finalize alternative proposals in September and October. George Whisman, who worked with the Houston ISD management audit, is giving overall leadership to the Peat, Marwick, Mitchell effort.

#### LEGISLATIVE PROPERTY TAX COMMITTEE

|                                                                                  |                                                                            |
|----------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Charles D. Kirkham, Chairman, Merrill Lynch, Pierce, Fenner & Smith Inc., Dallas | Representative Richard Slack, Pecos                                        |
| Karl Smith, Tax Assessor-Collector, Houston                                      | Jack Hart, Attorney (member of the committee and head of its staff) Austin |
|                                                                                  | Senator James S. Bates, Edinburg                                           |

The Legislative Property Tax Committee was established by SB 414 to deal with the total scope of ad valorem taxation in Texas. Members estimate that their work will affect some 3,300 units of local government in Texas of which only 1,179 are school districts. The Committee announced its intention not to deal specifically with school finance problems unless it became apparent that an ad valorem tax would continue to be relied on heavily to finance the public schools of Texas.

Evidently, it has become apparent to the members of the Committee that the heavy reliance on the local ad valorem tax will continue. As a result, the group has established a special task force on school tax reform. This prestigious group is composed of the following members: Senator Oscar Mauzy; Representative Don Caveness; Chairman Ben Howell of the State Board of Education; R. Kenneth Irby, tax assessor-collector, North East ISD; Parker Fielder, holder of the William H. Francis, Jr., professorship, The University of Texas Law School; Harriet Burke of the Attorney General's office; and Arthur Gochman, chief counsel for the plaintiffs in the Rodriguez case. The chairman of the special task force is Jack Hart, member and secretary of the Legislative Property Tax Committee. This special task force has announced its intention to confine its study to determining what changes in the tax laws must be made in order to satisfy the court.

Advisory committees to the Legislative Property Tax Committee have been established in the areas of data processing, exemptions, assessing, collecting, and tax suit rules. The full committee and its advisory groups have been meeting on approximately a monthly basis for the past few months and have reached the point of developing recommendations in those areas. These recommendations will be acted on by the committee in late August. The recommendations to date will affect ad valorem taxation in general, rather than being specifically addressed to school problems. The special task force on school tax reforms will, at a later date, undoubtedly make recommendations and draft a legal framework for making the steps necessary to satisfy court tests. The other principal study groups acting in unison have requested that this task be completed on or before October 31 by the Legislative Property Tax Committee.

## TEXAS ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

### Appointments by the Governor

Mayor Tom Vandergriff, Chairman, Arlington

Jimmy F. Plyler, Supt., Tyler

Jack L. Davidson, Supt., Austin

Arthur Busch, Regional Administrator,  
Environmental Protection Agency,  
Dallas

Howard McMahan, Regional Administrator, HEW, Dallas

Rudolph Rice, Principal, Austin

Bill Hartman, Editor and Publisher, **Enterprise & Journal**, Beaumont

Jim Dannenbaum, Dannenbaum Engineering Corp., Houston

Fred Pfeiffer, Gen. Mgr., San Antonio River Authority, San Antonio

William J. Pitstick, Exec. Dir., North Central Texas Council of Governments, Arlington

John S. Stiff, City Manager, Amarillo

Mayor Kemper Williams, Jr., Victoria  
George R. Schrader, Asst. City Manager, Dallas

Mayor John Gatti, San Antonio  
County Judge Kenneth Douglas, Corsicana

Robert McLeish, Jr., County Auditor, Hidalgo County, Edinburg

Z. T. Craver, County Commissioner, Precinct 4, Harrison County, Marshall

County Judge Ramon Thompson, Graham

**Appointments by the  
Lieutenant Governor**

Hon. Tom Creighton, Mineral Wells  
Hon. Jack Hightower, Vernon  
Hon. Oscar Mauzy, Dallas

**Appointments by the  
Speaker of the House**

Hon. Joe Golman, Dallas  
Hon. Jake Johnson, San Antonio  
Hon. Tim Von Dohlen, Goliad

The Advisory Commission was asked by the Governor to coordinate the activities of the many groups which have undertaken studies of the problem. To this end, the Commission has assumed the role of facilitator. An attempt to establish cooperative relations between all groups has been a central focus of the Commission. As a result, the Commission has called together the leaders of the study groups at various times to promote communications.

The Commission has also provided leadership in the cooperative effort to gather market value data on the school districts of Texas. A cover letter and questionnaire was mailed on May 24 to all superintendents. July 1 was designated as the final date for the receipt of the response by the TEA staff. The questionnaire stated the best available assessment ratio data. In some cases, the best data available were from the Bartlett study which was completed back in 1968. In many cases, there were later sources of information. Each school district has been given the opportunity to reject or confirm the indicated ratio. If the questionnaire was not returned by July 1, the Agency staff assumed that the ratio indicated as the best available is, in fact, the best available.

The Advisory Commission is attempting to assist any of the other groups in any way that it can, to provide a forum by convening members of the various governmental groups that are working on the problem, and to prepare the Commission to take an official position on the alternative plans as they emerge.

**TEXAS STATE TEACHERS ASSOCIATION TASK FORCE  
ON SCHOOL FINANCE AND PROGRAM**

|                                                                 |                                                     |
|-----------------------------------------------------------------|-----------------------------------------------------|
| Archie Roberts, Supt., Beeville ISD,<br>Chm.                    | Mrs. Jewel Howard, Teacher, Dallas<br>ISD           |
| W. A. Miller, Supt., Crane ISD                                  | Sam Anderson, Supt., Big Spring ISD                 |
| Dana Williams, Supt., Corpus Christi<br>ISD                     | Marvin Greer, Principal, North East ISD             |
| Dale Douglas, Asst. Supt., Richardson<br>ISD                    | Mrs. Jackie Blackstock, Teacher, El Paso<br>ISD     |
| Charles Mathews, Executive Vice-Presi-<br>dent, Kilgore College | Henry L. Shrake, Principal, Houston<br>ISD          |
| C. B. Barbee, Supt., Bronte ISD                                 | Herman Stoner, Teacher, Sherman ISD                 |
| W. P. Wright, Jr., Board Member, Abi-<br>lene ISD               | Mrs. Zella Lewis, Librarian, Tyler ISD              |
|                                                                 | Mrs. Emma Jean Tanner, Teacher, Braz-<br>osport ISD |

The group divided itself into two subgroups: one to devote its attention to program and the other, to finance. The committee decided to employ three consultants, Drs. Hayes, Haskew, and Hubert. These consultants have been working toward the development of materials for committee review and have had informal meetings with the TSTA staff leadership. Their efforts to date have

included computer runs to determine the costs associated with the expansion of different phases of the Foundation School Program. TSTA has made its intention to develop and submit a plan apparent. An October 15 deadline for completion has been set.

#### HOUSE INTERIM COMMITTEE ON FINANCING OF PUBLIC EDUCATION

|                                      |                                    |
|--------------------------------------|------------------------------------|
| Paul Silber, San Antonio, Chairman   | LeRoy Wieting, Portland            |
| Delwin Jones, Lubbock, Vice Chairman | Lynn Nabors, Regional Chairman for |
| Ben Atwell, Regional Chairman for    | West Texas                         |
| North Central Texas                  | Phil Cates, LeFors                 |
| Billy Williamson, Tyler              | Bryan Poff, Amarillo               |
| John Bigham, Temple                  | E. L. Short, Tahoka                |
| Cordell Hull, Fort Worth             | Charles Tupper, El Paso            |
| Charles Patterson, Taylor            | Lindon Williams, Regional Chairman |
| Charlie Jungmichel, Regional Chair-  | for Southeast Texas                |
| man for South Texas                  | W. J. Blythe, Houston              |
| Jon Newton, Beeville                 | Joe Hubenak, Rosenberg             |
| Joe Salem, Corpus Christi            | Rufus Kilpatrick, Beaumont         |
| Henry Sanchez, Brownsville           | Johnny Nelms, Pasadena             |

The following persons have been named to a 22-member group of advisory members to the special House Interim Committee on Financing of Public Education:

|                                 |                                 |
|---------------------------------|---------------------------------|
| Lyndon Bates, Dallas            | William L. Mann, Earth          |
| Mrs. Jackie Blackstock, El Paso | Hulon Marshall, Houston         |
| Gerald Brown, Austin            | Cecil Rusk, Austin              |
| Jim Favour, Dallas              | Douglas L. Sheedy, Marble Falls |
| Harry Garrison, III, Vanderbilt | Robert W. Simmons, Somerville   |
| Mrs. Jean Harris, Agua Dulce    | I. D. Starling, Prairie View    |
| R. E. Harris, Austin            | Gilbert C. Thompson, Midland    |
| Harold Hitt, San Antonio        | John F. Townley, Irving         |
| Jim Hooser, Austin              | Ed L. West, San Antonio         |
| Bruce K. Jacobson, Fort Worth   | I. B. Wheeler, Plainview        |
| Elroy Kiecke, Bellville         | E. W. Williams, Amarillo        |

The representatives on the committee began to hold regional hearings on the subject prior to the appointment of the lay advisory members.

By May the hearings ceased to draw people who were interested in testifying and by midsummer the transcriptions of the hearings had been completed.

In the Special Session of the Sixty-second Legislature, an attempt was made to unite the House and Senate committees on school finance; however, House members killed the proposal in fear that House influence on the issues would be diminished by the merger.

#### TEXAS COUNCIL OF MAJOR SCHOOL DISTRICTS SCHOOL FINANCE TASK FORCE

|                                                        |                                                                     |
|--------------------------------------------------------|---------------------------------------------------------------------|
| James Jeffrey, Assistant Superintendent,<br>Austin ISD | H. D. Pearson, Assistant Superintendent<br>for Business, Dallas ISD |
| Dana Williams, Superintendent, Corpus<br>Christi ISD   | Ralph Karlsruhe, Comptroller, El Paso<br>ISD                        |

Eugene Hightower, Assistant Superintendent for Business, Fort Worth ISD  
Linus Wright, Chief Financial Officer and Business Manager, Houston ISD

Harold H. Hitt, Superintendent, San Antonio ISD

The Texas Council of Major School Districts, composed of the board presidents and superintendents of the seven largest school districts in the state, authorized the appointment of the Task Force to aid the Council in fulfilling its appropriate role as Texas seeks solutions to school finance problems. The group met on February 11 to develop a draft of a basic policy statement on the school finance issue. With minor modifications, the Council adopted it on March 11, 1972. An intermediate level policy statement was adopted on August 26.

Both the general and intermediate level statements of the Council are very similar to those of the Texas Association of School Boards which appear on pages 48-51, a fact which reflects the Council's affiliate relationship with TASB. There are, however, a few significant differences which should be noted by the serious student of school finance.

#### TEXAS MANUFACTURERS ASSOCIATION PUBLIC EDUCATION RESEARCH COMMITTEE

Paul Hale, Orange, Chairman  
John G. Adams, Jr., Austin  
J. W. Arnold, Odessa  
George Bradford, Houston  
Allan Forsythe, Houston  
David C. Hull, Longview  
Gore Kemp, Kilgore (School Board Member)

Johnny Long, Lufkin  
Willie Martens, Deer Park  
Joe A. Moss, Dallas  
Fred Repper, Corpus Christi  
J. S. Witt, Longview  
John A. Warner, Tyler  
Jerry G. Jenkins, Big Spring

The TMA committee has declared that it is not attempting to develop a school finance plan. The purpose of its meetings has been to become informed regarding issues in school finance. At a later date the group will advise TMA to support or oppose various proposals or factors within proposals.

#### SPECIAL TASK FORCE ON SCHOOL BONDS

Arnold Kocurek, Sr., San Antonio  
L. P. Sturgeon, Austin  
Hon. Victor Boldin, Houston  
Hon. John Fainter, Houston  
Jim Kerley, Dallas  
W. E. Tinsley, Austin

Richard L. Hooker, Austin  
J. W. Edgar, Austin  
Garry Weber, Dallas  
Dick Brown, Austin  
Hon. Crawford Martin, Austin

The Governor's Task Force on School Bonds met on January 6. The group decided to take no action until the court handed down a clarification of its Rodriguez decision.

In addition to attacking the immediate problem of restoring confidence in the bond market or seeking alternative methods of retiring outstanding bonds, the group was asked to be an advisory group to the Texas Advisory Commission on Intergovernmental Relations as that group seeks solutions to school finance problems.

Appendix B

**Policy Questions  
For  
Discussion**

- I. Should there be state-local sharing of the total costs involved in providing a state system of public education? If the answer is yes—
  - A. What percentage should the local districts collectively provide?
  - B. Should a local district's share be determined by the market value of taxable property within the district?
  - C. How should taxable property be defined? Automobiles? Shrimp boats? Intangibles?
  - D. How can uniform assessment procedures be assured? The independent appraisal unit? Countywide? Regional? State enforcement of uniform practices?
  - E. What should be considered justification for reducing a local district's gross annual share of the collective assignment to local districts?
  - F. Must a system be designed wherein all ad valorem taxes raised in a local district are spent in that district? If so, should mineral deposits and heavy industry—the cause of great disparities in school district wealth—be eliminated from local tax roles and taxed by the state for all the districts of Texas?
- II. Should state support consist of a per pupil guaranteed minimum expenditure or a stipulated program similar to the structure of the present Foundation School Program?
  - A. If a per pupil support system is used, should the grants be made on the basis of a flat amount per pupil without regard for pupil need or a per pupil amount determined by the needs of pupils as reflected in a "weight" system? (See page 36.)
  - B. If a stipulated program support system is used, should it include
    - (1) a weighted-pupil formula to determine the number and class of professional personnel for which each district qualifies;
    - (2) a state salary schedule for all professional personnel that
      - can be enriched locally,
      - is compatible with differentiated staffing,
      - adjusts with supply and demand,
      - has increments that are dependent on performance factors,

- has automatic increments for years of service, degrees, and college credits,
- ensures the salary levels in HB 240 of the Sixty-first Legislature, and
- has automatic cost of living adjustments at the state and local levels;

(3) a per weighted pupil operation allotment;

(4) a facilities component to ensure a certain level of quality and quantity of facilities;

(5) a group of special programs to meet special needs for vocational education, special education, compensatory education and others; and

(6) a transportation allotment that covers the total cost of the local transportation program including the costs associated with federally ordered desegregation?

III. Should local districts be permitted to enrich the state program?  
If the answer is yes—

A. Should a power equalization approach be utilized to ensure all districts a similar return in dollars per pupil for a similar taxpayer effort?

B. For what purposes should enrichment be permitted?

C. Should a tax rate limit be used? A per pupil limit in dollars? A fixed percentage of the cost of the foundation program in the district?

D. How can the opportunity for local enrichment be structured to prevent special interest groups from absorbing all or most of the district's power to enrich?



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W. P. WRIGHT, JR.  
ABILENE ISD

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WILL DAVIS  
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